

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name BESSEMER	County GOGEBIC
Audit Date 6/30/04	Opinion Date 12/13/04	Date Accountant Report Submitted to State: 4/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) DAVID TRACZYK CPA			
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Accountant Signature <i>David Traczyk, CPA</i>		Date 4/19/05	

CITY OF BESSEMER, MICHIGAN
AUDITED FINANCIAL STATEMENTS

June 30, 2004

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INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the Council
City of Bessemer, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bessemer, Michigan management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major street fund, and the aggregate remaining fund information of the City of Bessemer, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2004.

The City of Bessemer, Michigan, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the financial statements of the City of Bessemer, Michigan, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Bessemer, Michigan. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 13, 2004, on my consideration of City of Bessemer, Michigan internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

December 13, 2004

CITY OF BESSEMER, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 414,722	\$ 369,485	\$ 784,207
Accounts receivable	12,359	128,245	140,604
Taxes receivable	55,150	-	55,150
Due from State of Michigan	112,541	-	112,541
Internal balances	2,011	(2,011)	-
Deferred charges	18,968	-	18,968
Inventory	11,426	63,130	74,556
Restricted cash	243,969	325,666	569,635
Capital assets	2,892,656	2,763,884	5,656,540
Accumulated depreciation	<u>(1,365,930)</u>	<u>(1,006,821)</u>	<u>(2,372,751)</u>
Total Assets	2,397,872	2,641,578	5,039,450
LIABILITIES			
Vouchers payable	47,161	5,032	52,193
Accrued interest	3,555	-	3,555
Due to other governments	42,463	11,661	54,124
Meter deposits	2,356	53,235	55,591
Bonds and notes payable	466,263	-	466,263
Accrued compensated absences	<u>56,345</u>	<u>-</u>	<u>56,345</u>
Total Liabilities	<u>618,143</u>	<u>69,928</u>	<u>688,071</u>
NET ASSETS			
Investments in capital assets, net of related debt	1,526,726	1,757,063	3,283,789
Reserved for debt service	1,155	-	1,155
Reserved for perpetual care	223,333	-	223,333
Reserved for capital projects	19,481	325,666	345,147
Unreserved	<u>9,034</u>	<u>488,921</u>	<u>497,955</u>
Total Net Assets	<u>\$ 1,779,729</u>	<u>\$ 2,571,650</u>	<u>\$ 4,351,379</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 365,387	\$ 5,873	\$ 276,573	\$ 39,900	\$ (43,041)
Public safety	174,006	-	-	-	(174,006)
Highways and streets	557,623	-	329,762	-	(227,861)
Sanitation	119,686	138,932	-	-	19,246
Culture and recreation	72,594	25,839	3,547	-	(43,208)
Interest on long term debt	18,893	-	-	-	(18,893)
Total Governmental Activities	1,308,189	170,644	609,882	39,900	(487,763)
Business-type Activities:					
Water	448,725	391,797	-	-	(56,928)
Sewer	350,157	322,705	-	-	(27,452)
Total Business-type Activities	798,882	714,502	-	-	(84,380)
Total	<u>\$ 2,107,071</u>	<u>\$ 885,146</u>	<u>\$ 609,882</u>	<u>\$ 39,900</u>	<u>\$ (572,143)</u>

Changes in Net Assets

	Governmenta l Activities	Business type Activities	Total
Net (Expense) Revenue	\$ (487,763)	\$ (84,380)	\$ (572,143)
General Revenues:			
Property taxes	415,379	-	415,379
Investment income	13,511	7,465	20,976
Miscellaneous	50,985	-	50,985
Transfers	-	-	-
Total General Revenues and Transfers	479,875	7,465	487,340
Changes in Net Assets	(7,888)	(76,915)	(84,803)
Net Assets at Beginning of Year	1,787,617	2,648,565	4,436,182
Net Assets at End of Year	<u>\$ 1,779,729</u>	<u>\$ 2,571,650</u>	<u>\$ 4,351,379</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Major Street	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 74,731	\$ 132,345	\$ 207,646	\$ 414,722
Accounts receivable	12,359	-	-	12,359
Taxes receivable	55,150	-	-	55,150
Due from State of Michigan	88,917	17,809	5,815	112,541
Due from other funds	114,824	-	-	114,824
Deferred charges	18,968	-	-	18,968
Inventory	-	5,713	5,713	11,426
Restricted cash	243,969	-	-	243,969
Total Assets	\$ 608,918	\$ 155,867	\$ 219,174	\$ 983,959
LIABILITIES				
Vouchers payable	\$ 37,813	\$ 3,928	\$ 5,420	\$ 47,161
Due to other funds	20,001	80,482	12,330	112,813
Due to other taxing agencies	42,463	-	-	42,463
Customer deposits	2,356	-	-	2,356
Total Liabilities	102,633	84,410	17,750	204,793
FUND BALANCES				
Reserved for perpetual care	223,333	-	-	223,333
Reserved for sick leave	1,155	-	-	1,155
Reserved for capital outlay	19,481	-	-	19,481
Unreserved	262,316	71,457	201,424	535,197
Total Fund Balances	506,285	71,457	201,424	779,166
Total Liabilities and Fund Balances	\$ 608,918	\$ 155,867	\$ 219,174	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,365,930. 1,526,726

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Due within one year	\$ 72,129	
Due in more than one year	394,134	
Compensated absences	56,345	(522,608)

Interest payable on long-term debt does not require current financial resources.

Therefore interest payable is not reported as a liability in governmental funds balance sheet. (3,555)

\$ 1,779,729

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2004

	General	Major Street	Other Governmental Funds	Total Governmental Funds
Revenues:				
Local Sources:				
Property taxes	\$ 370,375	\$ -	\$ 45,004	\$ 415,379
Licenses and permits	4,945	-	-	4,945
Charges for services	565,410	-	-	565,410
Fines and forfeits	21,994	-	-	21,994
Interest	7,639	1,358	4,514	13,511
Other	28,991	-	-	28,991
State sources	280,120	219,085	103,402	602,607
Federal sources	-	7,275	39,900	47,175
	<u>1,279,474</u>	<u>227,718</u>	<u>192,820</u>	<u>1,700,012</u>
Expenditures:				
General Government	601,547	-	34,923	636,470
Public safety	174,006	-	-	174,006
Highways & streets	222,848	183,448	151,327	557,623
Sanitation	119,686	-	-	119,686
Culture and recreation	72,594	-	-	72,594
Capital outlay	161,978	-	59,299	221,277
Debt service:				
Principal	109,318	-	2,000	111,318
Interest	9,124	-	6,214	15,338
	<u>1,471,101</u>	<u>183,448</u>	<u>253,763</u>	<u>1,908,312</u>
Excess of Revenues over (under) Expenditures	(191,627)	44,270	(60,943)	(208,300)
Other Financing Sources (Uses):				
Transfers in	-	95,000	49,444	144,444
Transfers (out)	(144,444)	-	-	(144,444)
Proceeds from borrowing	300,000	-	9,800	309,800
	<u>155,556</u>	<u>95,000</u>	<u>59,244</u>	<u>309,800</u>
Net Change in Fund Balances	(36,071)	139,270	(1,699)	101,500
Fund balance at beginning of year	<u>542,357</u>	<u>(67,813)</u>	<u>203,123</u>	<u>677,667</u>
Fund balance at end of year	<u>\$ 506,286</u>	<u>\$ 71,457</u>	<u>\$ 201,424</u>	<u>\$ 779,167</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2004

Continued

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$	101,500
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	221,277		
Depreciation expense	<u>(130,129)</u>		91,148

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from borrowing	(309,800)		
Principal paid on long-term debt	<u>111,318</u>		(198,482)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued interest	(3,555)		
Accrued compensated absences	<u>1,501</u>		<u>(2,054)</u>
Change in Net Assets of Governmental Activities		<u>\$</u>	<u>(7,888)</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2004

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Property taxes	\$ 397,000	\$ 375,300	\$ 370,375	\$ (4,925)
Rentals	324	4,524	4,945	421
Charges for services	638,270	544,500	565,410	20,910
Interest	21,020	20,020	21,994	1,974
Other	14,000	16,000	7,639	(8,361)
Intermediate sources	4,475	27,925	28,991	1,066
State sources	315,100	288,600	280,120	(8,480)
Federal sources	-	-	-	-
	<u>1,390,189</u>	<u>1,276,869</u>	<u>1,279,474</u>	<u>2,605</u>
Expenditures:				
General Government	580,405	586,765	601,547	(14,782)
Public safety	178,550	174,850	174,006	844
Highways & streets	256,255	216,652	222,848	(6,196)
Sanitation	118,350	120,550	119,686	864
Culture and recreation	74,825	69,075	72,594	(3,519)
Capital outlay	185,000	85,000	161,978	(76,978)
Debt service:				
Principal	41,562	90,766	109,318	(18,552)
Interest	8,944	6,998	9,124	(2,126)
	<u>1,443,891</u>	<u>1,350,656</u>	<u>1,471,101</u>	<u>(120,445)</u>
Excess of Revenues over (under) Expenditures	(53,702)	(73,787)	(191,627)	(117,840)
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	(90,000)	(144,450)	(144,444)	6
Proceeds from borrowing	-	150,000	300,000	150,000
	<u>(90,000)</u>	<u>5,550</u>	<u>155,556</u>	<u>150,006</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other (Uses)	(143,702)	(68,237)	(36,071)	32,166
Fund balance at beginning of year	<u>542,357</u>	<u>542,357</u>	<u>542,357</u>	<u>-</u>
Fund balance at end of year	<u>\$ 398,655</u>	<u>\$ 474,120</u>	<u>\$ 506,286</u>	<u>\$ 32,166</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS:			
Cash	\$ 276,766	\$ 92,719	\$ 369,485
Accounts receivable	66,531	61,714	128,245
Due from other funds	30,288	-	30,288
Inventory	54,793	8,337	63,130
Total Current Assets	428,378	162,770	591,148
RESTRICTED ASSETS:			
Cash	124,842	200,824	325,666
Total Restricted Assets	124,842	200,824	325,666
NONCURRENT ASSETS:			
Property, plant, and equipment	2,011,979	751,905	2,763,884
Accumulated depreciation	(691,774)	(315,047)	(1,006,821)
Total Noncurrent Assets	1,320,205	436,858	1,757,063
Total Assets	1,873,425	800,452	2,673,877
LIABILITIES			
CURRENT LIABILITIES:			
Vouchers payable	4,867	165	5,032
Due to other funds	-	32,299	32,299
Due to other governments	1,301	10,360	11,661
Total Current Liabilities	6,168	42,824	48,992
NONCURRENT LIABILITIES:			
Meter deposits	53,235	-	53,235
Total Noncurrent Liabilities	53,235	-	53,235
Total Liabilities	59,403	42,824	102,227
NET ASSETS			
Investments in capital assets, net of related debt	1,320,205	436,858	1,757,063
Reserved for capital projects	124,842	200,824	325,666
Unreserved	368,975	119,946	488,921
Total Net Assets	\$ 1,814,022	\$ 757,628	\$ 2,571,650

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2004

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 388,184	\$ 322,406	\$ 710,590
Miscellaneous	3,613	299	3,912
Total Operating Revenue	391,797	322,705	714,502
Operating Expenses:			
Water purchased	152,824	-	152,824
Production and pumping	92,176	-	92,176
Transmission and distribution	66,871	18,101	84,972
Sewage disposal	-	286,831	286,831
Administration	96,138	25,980	122,118
Customer accounting	3,424	3,103	6,527
Depreciation	37,292	16,142	53,434
Total Operating Expenses	448,725	350,157	798,882
Operating Income (Loss)	(56,928)	(27,452)	(84,380)
Non-operating revenue (expenses):			
Interest income	3,034	4,431	7,465
Total non-operating revenues (expenses)	3,034	4,431	7,465
Net Income Before Contributions and Transfers	(53,894)	(23,021)	(76,915)
Capital contributions	-	-	-
Operating transfers:			
Transfers in	-	-	-
Transfers (out)	-	-	-
Net transfers	-	-	-
Change in Net Assets	(53,894)	(23,021)	(76,915)
Net Assets at Beginning of Year	1,867,916	780,649	2,648,565
Net Assets at End of Year	\$ 1,814,022	\$ 757,628	\$ 2,571,650

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2004

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 398,226	\$ 327,033	\$ 725,259
Payments to suppliers	(342,225)	(333,496)	(675,721)
Payments to employees	(66,819)	(11,097)	(77,916)
Receipts of meter deposits	3,978	-	3,978
Refunds of meter deposits	-	-	-
Internal activity - payment from (to) other funds	(222)	51,658	51,436
Net Cash Provided (Used) by Operating Activities	(7,062)	34,098	27,036
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(69,252)	(6,305)	(75,557)
Net Cash Provided (Used) by Capital and Related Financing Activities	(69,252)	(6,305)	(75,557)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	406,692	174,993	581,685
Interest income	3,034	4,431	7,465
Net Cash Provided (Used) by Investing Activities	409,726	179,424	589,150
Net Increase (Decrease) in Cash and Cash Equivalents	333,412	207,217	540,629
Balances - Beginning of Year	68,196	86,326	154,522
Balances - End of Year	\$ 401,608	\$ 293,543	\$ 695,151
Cash, including time deposits	\$ 276,766	\$ 92,719	\$ 369,485
Restricted cash, including time deposits	124,842	200,824	325,666
Total Cash and Cash Equivalents, End of Year	\$ 401,608	\$ 293,543	\$ 695,151

See accompanying notes to basic financial statements.

Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$	(56,928)	\$	(27,452)	\$	(84,380)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation		37,292		16,142		53,434
Change in assets and liabilities:						
Receivables		6,429		4,328		10,757
Due from other funds		(222)		29,646		29,424
Inventory		1,630		(984)		646
Vouchers payable		477		(1,650)		(1,173)
Due to other funds		-		22,012		22,012
Due to other governments		282		(7,944)		(7,662)
Meter deposits		3,978		-		3,978
Net Cash Provided by Operating Activities	\$	(7,062)	\$	34,098	\$	27,036

Noncash investing, capital and financing activities:

None

CITY OF BESSEMER, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND - POLICE AND FIREMEN RETIREMENT FUND
June 30, 2004

ASSETS	
Cash and cash equivalents	<u>\$369,897</u>
Total Assets	<u>369,897</u>
LIABILITIES	
	<u>-</u>
NET ASSETS	
Held in trust for pension benefits	<u><u>\$369,897</u></u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND - POLICE AND FIREMEN RETIREMENT FUND
Year ended June 30, 2004

	ADDITIONS	
Investment earnings:		
Interest		\$15,044
	DEDUCTIONS	
Benefits		20,771
Administration		<u>1,387</u>
	Total Deductions	<u>22,158</u>
Change in Net Assets		(7,114)
Net Assets at Beginning of Year		<u>377,011</u>
Net Assets at End of Year		<u><u>\$369,897</u></u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL STATEMENT

The City of Bessemer, Michigan (the "City") operates under a Council – Manager form of government as authorized by its charter.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2004, the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on this criteria, the City has no component units.

BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes. Intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

NOTES TO FINANCIAL STATEMENTS (continued)

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (Not included in government-wide statements)

The City's Policemen and Fireman Retirement Fund is a pension trust fund used to account for the accumulation of resources to be used for the retirement benefit payments to retired policemen and firemen of the City.

NOTES TO FINANCIAL STATEMENTS (continued)

Major and Nonmajor Funds

The governmental and enterprise funds of the City are further classified as major and nonmajor funds as follows:

Fund	Brief Description
MAJOR FUNDS	
1. General Special Revenue:	See above for description.
2. Major Street	Account for revenues and expenditures of major street system.
Enterprise:	
3. Water	Account for revenues and expenses of providing water service to the public.
4. Sewer	Account for revenues and expenses of providing sewer service to the public.
NONMAJOR FUNDS	
Special Revenue:	
5. Local Street	Account for revenues and expenditures of local street system.
6. Building Authority Fund	Account for revenues and expenditures of Building Authority.
7. Downtown Development Authority Fund	Account for revenues and expenditures of Downtown Development Authority.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

NOTES TO FINANCIAL STATEMENTS (continued)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note F for details of interfund transactions, including receivables and payables at year-end.

NOTES TO FINANCIAL STATEMENTS (continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax and grants and other similar intergovernmental revenues since they are usually both measurable and available. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

The inventories of the City's major and local street funds and enterprise funds consist of supplies and are recorded at the lower of cost or estimated value.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

-Buildings	50 years
-Machinery and Equipment	5-15 years
-Utility System	10-100 years
-Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS (continued)

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to cash accounts established to be used for capital projects, cemetery perpetual care and debt retirement.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes and bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time and sick leave permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term in the government-wide statements. In the fund financial statements, the liability is reported as it is incurred.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note E for additional disclosures.

REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Property tax revenue should be recognized in accordance with MCGAA Statement 3. Properties are assessed and lienied as of December 31 and their related property taxes are billed on December 1 or July 1 of the following year. These taxes are due on February 14, or August 31 with the final collection date of February 28 before they are added to the county delinquent tax rolls.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and /or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds--By Character:

Current (further classified by function)
Debt Service
Capital Outlay

Proprietary Fund--By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

BUDETARY CONTROL

The City follows the following procedures in establishing budgets as reflected in the financial statements:

1. Prior to June 1st, the City Manager submits a proposed budget to the Council with covers all funds operated by the City commencing the following July 1st, the proposed expenditures and the means of financing them.
2. At least one public hearing is conducted by the City to obtain taxpayer comments and review the proposed budget in detail.
3. In June, the budget is legally enacted through passage of an ordinance.
4. Any revisions that alter any item of the budget are approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with Generally Accepted Accounting Principles.

Presented budgeted amounts presented are as originally adopted on June 2, 2003, or as amended by action of the Council.

NOTES TO FINANCIAL STATEMENTS (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - BALANCE SHEET--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year-end are as follows:

Bank Balance	
Deposits	Total
Insured (FDIC)	\$ 347,863
Uninsured	<u>1,453,542</u>
	<u><u>\$ 1,801,405</u></u>

NOTE C – ACCOUNTS RECEIVABLE

The City records the receivables net of the allowance for uncollectibles. The amounts reflected as of June 30, 2004, include the following amounts with allowances for uncollectibles:

Fund	Receivable	Allowance	Net
General	\$ 12,359	\$ -	\$ 12,359
General - taxes	55,150	-	55,150
Water	66,531	-	66,531
Sewer	61,714	-	61,714

The allowance is established, as accounts are deemed uncollectible. Delinquent personal property taxes are deemed uncollectible after 3 years and are written off.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE D - RESTRICTED CASH

Various cash accounts have been established by the City for funds that have been reserved for future reserved expenditures. Separate bank accounts have been set up as follows:

General Fund:	
Retirement benefits	\$ 1,155
Cemetery perpetual care	223,333
Capital outlay	<u>19,481</u>
	243,969
Water Fund:	
Capital improvements	124,842
Sewer Fund:	
Capital improvements	<u>200,824</u>
Total restricted assets	<u>\$ 569,635</u>

The above amounts have been set up in local banks in checking, savings, and certificate of deposit accounts.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE E – PROPERTY, PLANT, AND EQUIPMENT

A summary of the changes in the City's property, plant, and equipment for the year is as follows:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
<u>General Fixed Assets</u>				
Land	\$ 5,999	\$ -	\$ -	\$ 5,999
Buildings	1,189,199	59,299	-	1,248,498
Machinery and equipment	1,348,711	85,217	-	1,433,928
Office equipment	127,471			127,471
Infrastructure	-	76,761	-	76,761
	<u>2,671,380</u>	<u>221,277</u>	<u>-</u>	<u>2,892,657</u>
Accumulated depreciation	<u>1,235,801</u>	<u>130,129</u>	<u>-</u>	<u>1,365,930</u>
	<u>\$ 1,435,579</u>	<u>\$ 91,148</u>	<u>\$ -</u>	<u>\$ 1,526,727</u>
<u>Water Fund</u>				
Land	\$ 17,723	\$ -	\$ -	\$ 17,723
Land improvements	23,760	-	-	23,760
Well improvements	142,105	-	-	142,105
Buildings	280,121	-	-	280,121
Machinery and equipment	218,511	-	-	218,511
Vehicles	24,632	-	-	24,632
Office equipment	5,431	-	-	5,431
Distribution system	1,230,444	69,253	-	1,299,697
	<u>1,942,727</u>	<u>69,253</u>	<u>-</u>	<u>2,011,980</u>
Accumulated depreciation	<u>654,482</u>	<u>37,292</u>	<u>-</u>	<u>691,774</u>
Net Plant	<u>\$ 1,288,245</u>	<u>\$ 31,961</u>	<u>\$ -</u>	<u>\$ 1,320,206</u>
<u>Sewer Fund</u>				
Machinery and equipment	\$ 161,085	\$ -	\$ -	\$ 161,085
Vehicles	24,633	-	-	24,633
Office equipment	4,846	-	-	4,846
Transmission system	555,036	6,305	-	561,341
	<u>745,600</u>	<u>6,305</u>	<u>-</u>	<u>751,905</u>
Accumulated depreciation	<u>298,905</u>	<u>16,142</u>	<u>-</u>	<u>315,047</u>
Net Plant	<u>\$ 446,695</u>	<u>\$ (9,837)</u>	<u>\$ -</u>	<u>\$ 436,858</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE F - INTERFUND ACTIVITIES

The amounts of interfund receivables and payables at June 30, 2004, were as follows:

<u>Receivable</u>	<u>June 30, 2004</u>	<u>Payable</u>	<u>June 30, 2004</u>
General	\$ 114,824	Sewer	\$ 22,012
		Major Street	80,482
		Downtown	
		Development	
		Authority	<u>12,330</u>
			114,824
Water	<u>92,812</u>	General	80,482
		Sewer	<u>12,330</u>
			<u>92,812</u>
	<u>\$ 207,636</u>		<u>\$ 207,636</u>

Operating transfers between the various funds of the City for the year ended June 30, 2004, were as follows:

<u>Transfer From</u>		<u>Transfer To</u>	
General	<u>\$ 144,444</u>	Building Authority	\$ 13,444
		Major Street	95,000
		Local Street	<u>36,000</u>
			<u>\$ 144,444</u>

The fund financial statements include charges by the general fund to the various funds and functions of the City for administration and rentals as follows:

Administration	\$ 237,218
Rentals	<u>162,493</u>
Total	<u>\$ 399,711</u>

These charges represent the allocation of various overhead expenditures. They have been eliminated in the government-wide statement of activities in accordance with GASB34.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE G - JOINT VENTURES

The City is a member of the Bessemer Area Sewer Authority (BASA), a joint venture. It has been incorporated by the City of Bessemer and Bessemer Township, both located in Gogebic County, Michigan. The BASA operates under a board of directors consisting of three members, two appointed by the City, and one by Bessemer Township. As a joint venture, the BASA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the BASA are available at the office of the BASA located at E7840 Stone Rd., Bessemer, Michigan. A condensed summary of the BASA activities as of June 30, 2003, is as follows:

	<u>June 30, 2002</u>	<u>Net Change</u>	<u>June 30, 2003</u>
Current assets	\$ 254,135	\$ 16,871	\$ 271,006
Property, plant and equipment	8,087,845	(127,306)	7,960,539
Other assets	<u>205,857</u>	<u>6,903</u>	<u>212,760</u>
	<u>\$ 8,547,837</u>	<u>\$ (103,532)</u>	<u>\$ 8,444,305</u>
Current liabilities	\$ 80,720	\$ (2,761)	\$ 77,959
Long-term debt	2,543,000	(44,000)	2,499,000
Equity	<u>5,924,117</u>	<u>(56,771)</u>	<u>5,867,346</u>
	<u>\$ 8,547,837</u>	<u>\$ (103,532)</u>	<u>\$ 8,444,305</u>

The City also is a member of the Gogebic Range Water Authority (GRWA), a joint venture. It has been incorporated by the Charter Township of Ironwood, Cities of Bessemer and Bessemer, along with the Townships of Bessemer and Bessemer, all of Gogebic County. The GRWA operates under a board of directors consisting of eleven members, two appointed by the each of the constituent municipalities, and 1 at large member appointed by the board of directors. The GRWA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the GRWA are available through their representative at P.O. Box 445, Ramsay, Michigan 49959. A condensed summary of the GRWA activities as of June 30, 2002, is as follows:

P.O. Box 445, Ramsay, Michigan 49959. A condensed summary of the GRWA activities as of June 30, 2002, is as follows:

	<u>June 30, 2002</u>	<u>Net Change</u>	<u>June 30, 2003</u>
Current assets	\$ 88,004	\$ 44,760	\$ 132,764
Property, plant and equipment	7,234,078	1,639,227	8,873,305
Other assets	<u>90,849</u>	<u>81,909</u>	<u>172,758</u>
	<u>\$ 7,412,931</u>	<u>\$ 1,765,896</u>	<u>\$ 9,178,827</u>
Current liabilities	\$ 601,921	\$ (44,012)	\$ 557,909
Long-term debt	2,750,000	781,000	3,531,000
Equity	<u>4,061,010</u>	<u>1,028,908</u>	<u>5,089,918</u>
	<u>\$ 7,412,931</u>	<u>\$ 1,765,896</u>	<u>\$ 9,178,827</u>

NOTES TO FINANCIAL STATEMENT (Continued)

NOTE H - LONG-TERM DEBT

A summary of changes in the City's long-term debt for the year ended June 30, 2004, is as follows:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>
Bonds payable	\$ 133,200	\$ 9,800	\$ 2,000	\$ 141,000
Notes payable	81,923	300,000	56,660	325,263
Lease purchase	52,658	-	52,658	-
Compensated absences	57,846	-	1,501	56,345
	<u>\$ 325,627</u>	<u>\$ 309,800</u>	<u>\$ 112,819</u>	<u>\$ 522,608</u>

The long-term debt consists of the following general obligations of the City:

1. General Obligation Limited Tax Bonds

Issued April 17, 2002 for \$145,000, bearing interest @ 4.75% payable over 30 years. 141,000

2. Bank Note (National City Bank)

Issued November 10, 1998, bearing interest @ 5.01%, payable over the next 4 years 62,763

3. Bank Note (Wells Fargo Bank)

Issued September 23, 2003, for \$150,000, bearing interest @ 2.0% payable over 6 years 131,250

4. Bank Note (Wells Fargo Bank)

Issued September 23, 2003, for \$150,000, bearing interest @ 2.0% payable over 6 years 131,250

Total General Obligation Debt \$ 466,263

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE H - LONG-TERM DEBT (continued)

The repayment schedule for these debts is scheduled as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2005	\$ 72,129	\$ 14,737	\$ 86,866
6/30/2006	74,152	12,249	86,401
6/30/2007	74,482	10,379	84,861
6/30/2008	53,000	8,139	61,139
6/30/2009	53,000	6,979	59,979
6/30/10 - 6/30/14	29,500	28,732	58,232
6/30/15 - 6/30/19	21,000	24,225	45,225
6/30/20 - 6/30/24	28,000	18,620	46,620
6/30/25 - 6/30/29	35,000	11,352	46,352
6/30/30 - 6/30/32	26,000	2,517	28,517
	<u>\$ 466,263</u>	<u>\$ 137,929</u>	<u>\$ 604,192</u>

Summary of changes in long-term debt:

Compensated Absences

Employees earn one day of sick leave per month with a maximum accumulation of 120 days. Upon retirement, employees are entitled to payment for up to a maximum of 100 days, calculated with regard to the number of years of service. Employees are also granted vacation in varying amounts based on the number of years of service. The estimated value of unused sick leave and vacation are reflected as a liability in the general long term debt account group at \$ 36,644 and \$ 19,701 respectively.

NOTE I - CONTINGENT LIABILITY

As further explained in Note G, the City is a member of two joint ventures. As a member, the City is contingently liable for its share of the bonds issued by the joint ventures. As of June 30, 2003, the outstanding bonds of the joint ventures are as follows:

	<u>Outstanding</u>	<u>City Portion</u>
BASA - 1987 bond issue	\$ 1,370,000	\$ 1,181,625 (86.25%)
BASA - 1998 bond issue	1,173,000	1,137,810 (97.00%)
GRWA - 1999 bond issue	2,750,000	2,178,000 (79.20%)
GRWA - 2003 bond issue	1,339,000	392,595 (29.32%)

NOTE J - EMPLOYEE RETIREMENT PLAN

The City is a participating member of the Michigan Municipal Employees Retirement System (MERS) which covers substantially all of the City employees. The plan requires employees' contributions equal to specified percentages of earnings and the City makes annual contributions to the plan equal to the amounts accrued for pension expense. Detailed information concerning the plan was not available, accordingly, various disclosures, required by GASB Statement No.25, are not included herein.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE K - POLICEMEN AND FIREMEN RETIREMENT PLAN

This plan was established and is maintained under the Fire and/or Police Department Pension and Retirement Act, Act 345, P.A. 1937. This plan provides for all past full time policemen and firemen and benefits were vested after 10 years of service. At June 30, 2004, the plan had no unfunded accrued liabilities. The City had no expense related to the plan for the years ended June 30, 2004, and 2003. Since the City's police and fire departments have been terminated, there were no active members at June 30, 2004.

NOTE L – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained coverage from a commercial insurance company. The City has comprehensive general liability coverage and has obtained worker's compensation coverage.

All risk management activities are accounted for in the financial statements of the City. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2004, will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE M – COMMITMENTS AND CONTINGENCIES

In normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of that is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE P – COMPLIANCE ISSUES

Expenditures in Excess of Appropriations

The City had expenditures in excess of appropriations budgeted as follows:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$ 1,471,101	\$ 1,350,656	\$ 120,445
Building Authority Fund	63,439	8,850	54,589

OTHER FINANCIAL INFORMATION

CITY OF BESSEMER, MICHIGAN
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2004

	Special Revenue Funds			
	Building Authority Fund	Downtown Development Authority Fund	Local Street Fund	Totals
ASSETS				
Cash	\$3,969	\$157,001	\$46,676	\$207,646
Due from State of Michigan	-	-	5,815	5,815
Inventory of supplies	-	-	5,713	5,713
	<u>\$3,969</u>	<u>\$157,001</u>	<u>\$58,204</u>	<u>\$219,174</u>
LIABILITIES				
Vouchers payable	-	-	5,420	5,420
Due to other funds	-	-	12,330	12,330
	-	-	17,750	17,750
EQUITY				
Fund balance (deficit):				
Unreserved	<u>3,969</u>	<u>157,001</u>	<u>40,454</u>	<u>201,424</u>
	<u>3,969</u>	<u>157,001</u>	<u>40,454</u>	<u>201,424</u>
	<u>\$3,969</u>	<u>\$157,001</u>	<u>\$58,204</u>	<u>\$219,174</u>

CITY OF BESSEMER, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year ended June 30, 2004

	Special Revenue Funds			
	Building Authority Fund	Downtown Development Authority Fund	Local Street Fund	Totals
Revenues:				
Taxes	\$ -	\$ 45,004	\$ -	\$ 45,004
Licenses and permits	-	-	-	-
Intergovernmental:				
State	-	-	103,402	103,402
Federal	39,900	-	-	39,900
Interest	47	4,033	434	4,514
	39,947	49,037	103,836	192,820
Expenditures:				
General government	-	34,923	-	34,923
Highways and streets	-	-	151,327	151,327
Capital outlay	55,225	4,074	-	59,299
Debt Service:				
Principal	2,000	-	-	2,000
Interest	6,214	-	-	6,214
	63,439	38,997	151,327	253,763
Excess of Revenues over (under) expenditures	(23,492)	10,040	(47,491)	(60,943)
Other Financing Sources (Uses):				
Operating transfers in	13,444	-	36,000	49,444
Proceeds from borrowing	9,800	-	-	9,800
	23,244	-	36,000	59,244
Excess of Revenues and Other Sources over (under) expenditures and Other Uses	(248)	10,040	(11,491)	(1,699)
Fund balance - beginning of year (deficit)	4,217	146,961	51,945	203,123
Fund Balance - end of year (deficit)	\$3,969	\$157,001	\$40,454	\$201,424

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUE - BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2004

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Taxes:				
Property taxes	\$384,000	\$361,800	\$356,078	(\$5,722)
Collection fees	13,000	13,500	14,297	797
	397,000	375,300	370,375	(4,925)
Licenses and permits	324	4,524	4,945	421
Intergovernmental revenues:				
State sources:				
Library grant	2,000	2,000	3,547	1,547
Revenue sharing	310,000	283,500	276,573	(6,927)
Other	3,100	3,100	-	(3,100)
	315,100	288,600	280,120	(8,480)
Charges for services:				
Administration	291,500	221,000	237,218	16,218
Rentals	192,800	161,700	163,133	1,433
Sanitation	126,000	136,800	138,932	2,132
Cemetery	26,500	23,500	24,525	1,025
Library	1,100	1,400	1,314	(86)
Other	370	100	288	188
	638,270	544,500	565,410	20,910
Fines and forfeits	21,020	20,020	21,994	1,974
Other				
Interest	14,000	16,000	7,639	(8,361)
Sale of property	1,225	8,825	8,929	104
Miscellaneous	3,250	19,100	20,062	962
	18,475	43,925	36,630	(7,295)
TOTAL REVENUES	\$1,390,189	\$1,276,869	\$1,279,474	\$2,605

CITY OF BESSEMER, MICHIGAN
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2004

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
General government:				
Mayor and council	\$5,695	\$6,995	\$6,377	\$618
Manager	52,900	45,000	44,249	751
Elections	1,050	1,050	535	515
Audit	2,100	2,000	2,000	-
Assessor	13,100	13,100	13,391	(291)
Attorney	5,000	6,000	5,967	33
Clerk	33,600	34,400	38,271	(3,871)
Treasurer	30,100	39,000	37,736	1,264
General	365,810	366,850	379,519	(12,669)
City hall	25,900	26,250	26,299	(49)
Cemetery	45,150	46,120	47,203	(1,083)
	580,405	586,765	601,547	(14,782)
Public safety:				
Police protection	129,700	140,350	138,021	2,329
Fire protection	48,850	29,900	31,354	(1,454)
Building inspector	-	4,600	4,631	(31)
	178,550	174,850	174,006	844
Highways and streets:				
Maintenance	179,150	175,802	180,644	(4,842)
Street lighting	77,105	40,850	42,204	(1,354)
	256,255	216,652	222,848	(6,196)
Sanitation:				
Disposal	71,000	73,500	73,647	(147)
Collections	47,350	47,050	46,039	1,011
	118,350	120,550	119,686	864
Culture and recreation:				
Library	62,075	57,975	59,229	(1,254)
Parks and recreation	12,750	11,100	13,365	(2,265)
	74,825	69,075	72,594	(3,519)
Capital outlay	185,000	85,000	161,978	(76,978)
Debt service:				
Principal	41,562	90,766	109,318	(18,552)
Interest	8,944	6,998	9,124	(2,126)
	50,506	97,764	118,442	(20,678)
TOTAL EXPENDITURES	\$1,443,891	\$1,350,656	\$1,471,101	(\$120,445)

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING AUTHORITY FUND
Year ended June 30, 2003

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Federal grant	\$ -	\$ -	\$ 39,900	\$ 39,900
Interest	<u>-</u>	<u>-</u>	<u>47</u>	<u>47</u>
	-	-	39,947	39,947
Expenditures:				
General government:				
Capital outlay	173,000	38	55,225	(55,187)
Debt service:				
Principal	15,000	2,000	2,000	-
Interest	<u>5,000</u>	<u>6,812</u>	<u>6,214</u>	<u>598</u>
	<u>193,000</u>	<u>8,850</u>	<u>63,439</u>	<u>(54,589)</u>
Excess of Revenues over (under) Expenditures	<u>(193,000)</u>	<u>(8,850)</u>	<u>(23,492)</u>	<u>(14,642)</u>
Other Financing Sources (Uses):				
Transfers in	-	8,850	13,444	4,594
Proceeds from borrowing	<u>185,000</u>	<u>-</u>	<u>9,800</u>	<u>9,800</u>
	<u>185,000</u>	<u>8,850</u>	<u>23,244</u>	<u>14,394</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(8,000)	-	(248)	(248)
Fund balance at beginning of year	<u>4,217</u>	<u>4,217</u>	<u>4,217</u>	<u>-</u>
Fund balance at end of year (deficit)	<u><u>(\$3,783)</u></u>	<u><u>\$4,217</u></u>	<u><u>\$3,969</u></u>	<u><u>(\$248)</u></u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY FUND
Year ended June 30, 2004

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 67,000	\$ 50,000	\$ 45,004	\$ (4,996)
Interest	<u>3,000</u>	<u>3,500</u>	<u>4,033</u>	<u>533</u>
	70,000	53,500	49,037	(4,463)
Expenditures:				
General government	34,700	33,500	34,923	(1,423)
Capital outlay	18,500	90,000	4,074	85,926
Debt Service:				
Principal	15,000	-	-	-
Interest	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>70,000</u>	<u>123,500</u>	<u>38,997</u>	<u>84,503</u>
Excess of Revenues over (under) Expenditures	-	(70,000)	10,040	80,040
Other Financing Sources (Uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(70,000)	10,040	80,040
Fund balance at beginning of year	<u>146,961</u>	<u>146,961</u>	<u>146,961</u>	<u>-</u>
Fund balance at end of year	<u>\$146,961</u>	<u>\$76,961</u>	<u>\$157,001</u>	<u>\$80,040</u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
For the Fiscal Year ended June 30, 2004

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
State sources:				
Highway aids	\$207,000	\$221,000	\$199,539	(\$21,461)
State trunk line maintenance	20,000	29,800	19,546	(10,254)
Federal	275,000	7,200	7,275	75
Interest	500	1,350	1,358	8
	502,500	259,350	227,718	(31,632)
Expenditures:				
Highways and streets:				
Construction	10,850	850	2,816	(1,966)
Routine maintenance	65,900	29,300	29,626	(326)
Snow and ice	69,000	87,400	91,229	(3,829)
Administration	55,760	43,725	44,460	(735)
Trunk line maintenance	10,050	15,750	15,317	433
Capital outlay	280,000	92,000	-	92,000
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
	491,560	269,025	183,448	85,577
Excess of Revenues over (under) Expenditures	10,940	(9,675)	44,270	53,945
Other Financing Sources (Uses):				
Operating transfers in	-	95,000	95,000	-
Operating transfers (out)	-	-	-	-
	-	95,000	95,000	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	10,940	85,325	139,270	53,945
Fund balance at beginning of year	(67,813)	(67,813)	(67,813)	-
Fund balance at end of year (deficit)	<u>(\$56,873)</u>	<u>\$17,512</u>	<u>\$71,457</u>	<u>\$53,945</u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
Year ended June 30, 2004

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
State sources:				
Highway aids	\$94,200	\$107,800	\$103,402	(\$4,398)
Federal	-	14,350	-	(14,350)
Interest	-	-	434	434
	<u>94,200</u>	<u>122,150</u>	<u>103,836</u>	<u>(18,314)</u>
Expenditures:				
Highways and streets:				
Construction	24,650	-	-	-
Routine maintenance	70,350	52,100	43,686	8,414
Snow and ice	67,550	70,950	74,502	(3,552)
Administration	56,650	35,100	33,139	1,961
	<u>219,200</u>	<u>158,150</u>	<u>151,327</u>	<u>6,823</u>
Excess of Revenues over (under) Expenditures	(125,000)	(36,000)	(47,491)	(11,491)
Other Financing Sources (Uses):				
Operating transfers in	125,000	36,000	36,000	-
Operating transfers (out)	-	-	-	-
	<u>125,000</u>	<u>36,000</u>	<u>36,000</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(11,491)	(11,491)
Fund balance at beginning of year	<u>51,945</u>	<u>51,945</u>	<u>51,945</u>	<u>-</u>
Fund balance at end of year (deficit)	<u>\$51,945</u>	<u>\$51,945</u>	<u>\$40,454</u>	<u>(\$11,491)</u>

SUPPLEMENTAL REPORT

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, MICHIGAN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and Member of the Council
City of Bessemer
Bessemer, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bessemer, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Bessemer, Michigan's, basic financial statements and have issued my report thereon dated December 13, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Bessemer, Michigan's financial statements are free of material misstatement, I performed tests of it's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance, which is reported in Note N regarding compliance issues.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Bessemer, Michigan's, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

One reportable condition is described as follows:

04-1 Fixed Assets

Condition and Criteria: The City has not updated its general fixed assets ledgers or enterprise fund asset ledgers for many years.

Effect: Because of the failure to properly maintain the fixed asset accounts, proper control over these assets cannot be achieved.

Recommendation: It is recommended that all fixed asset accounts be updated and maintained as an integral part of the City's accounting system.

Response: We concur with the recommendation and have begun the process.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However of the reportable conditions described above, I consider item 04-1 to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 13, 2004

City of Bessemer
Bessemer, Michigan 49911

MANAGEMENT REPRESENTATION LETTER

March 3, 2005

David Traczyk, CPA
327 Silver Street
Hurley, Michigan 54534

We are providing this letter in connection with your audit of the financial statements of City of Bessemer, Michigan as of June 30, 2004, and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bessemer, Michigan and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of March 3, 2005, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles and include all properly classified funds and account groups of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all--
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We believe the effects of the uncorrected financial statement misstatements are immaterial, both individual and in the aggregate, to the financial statements taken as a whole.

In addition, you have recommended adjusting journal entries (copy attached) that will be posted. We are in agreement with those adjustments.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,.
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax on debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

12. There are no--
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
13. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
14. The City has complied with all aspects of contractual agreements that would have a material effect on the general purpose financial statements in the event of noncompliance.
15. We have been informed about the change in accounting principle as indicated in Note A to the financial statements and agree to the changes as noted.
16. We have reviewed the depreciation schedules (copy attached) and are in agreement with all of the calculations and useful lives.
17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
18. The financial statements properly classify all funds and activities.
19. Provisions for uncollectible receivables have been properly identified and recorded.
20. Special and extraordinary items are appropriately classified and reported.
21. Deposits and investment securities are properly classified in category of custodial credit risk.
22. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
23. We understand that you prepared the trial balance for use during the audit and that your preparation of the trial balance was limited to formatting the information in the City of Bessemer, Michigan's general ledger into a working trial balance. Also, as part of your audit, you prepared the draft financial statements and related notes from the trial balance. We have reviewed and approved those financial statements and related notes and believe they are adequately supported by the books and records of the government.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements of in the schedule of findings and questioned costs.

Signed: _____ Signed: _____

Title: _____ Title: _____

CITY OF BESSEMER
CITY HALL
411 S. SOPHIE STREET
BESSEMER, MICHIGAN 49911

March 3, 2005

Mr. Michael Korpela, Attorney
215 S. Sophie St.
Bessemer, Michigan 49911

Dear Mr. Korpela,

Our auditor, David Traczyk, CPA, 327 Silver Street, Hurley, Wisconsin, 54534, is making and annual audit of our financial statements for the year ended June 30, 2003. Please furnish to him the information requested below involving matters as to which you have been engaged and to which you have devoted substantive attention on behalf of the City of Bessemer, Michigan, in the form of legal consultation or representation.

Pending or Threatened Litigation (excluding unasserted claims and assessments)

Please prepare a description of all material litigation, claims, and assessments (excluding unasserted claims and assessments). Materiality for purposes of this latter includes items involving amounts exceeding \$5,000.00 individually or in the aggregate. The description of each case should include:

- a. The nature of the litigation;
- b. The progress in the case to date;
- c. How the City is responding or intends to respond to the litigation, e.g., to contest the case vigorously or to seek an out-of-court settlement; and
- d. An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Unasserted Claims and Assessments

We have represented to our auditor that there are no unasserted claims or assessments that you have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 (excerpts of which can be found in the ABA' Auditor's Letter Handbook).

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditor that our understanding is correct.

Response

Your response should include matters that existed as of June 30, 2004, and during the period from that date to the effective date of your response.

Please specifically identify the nature of, and reasons for, any limitation on your response.

Our auditor expects to have the audit completed on March 7, 2005 and would appreciate receiving your response by that date with an effective date no earlier than March 3, 2005.

Sincerely,

Thomas Chatel
City Manager